PROPOSED CHARGING LETTER

March 14, 2008

H. Alan Jones
Assistant General Counsel, Export/Import
Northrop Grumman Corporation
1745 A West Nursery Rd.
MS A410
Linthicum, MD 21090

Re: Investigation of Northrop Grumman Corporation Regarding Violations of the Arms Export Control Act (AECA) and the International Traffic in Arms Regulations (ITAR)

Dear Mr. Jones:

The Department of State ("Department") charges Northrop Grumman Corporation (NGC) ("Respondent") with violations of the Arms Export Control Act (the "Act") and the International Traffic in Arms Regulations ("ITAR") in connection with the unauthorized export of defense articles and technical data involving the modified LTN-72 and LTN-92 Inertial Navigation Systems (INS). A total of 110 violations are alleged at this time. The essential facts constituting the alleged violations are described herein. The Department reserves the right to amend charging letters, including through a revision to incorporate additional charges stemming from the same misconduct of the Respondent in these matters. Please be advised that this proposed-charging letter provides notice of our intent to impose debarment and/or civil penalties in accordance with 22 C.F.R. §128.3.

The Department considered the Respondent's Voluntary Disclosure as a significant mitigating factor when determining the charges to pursue in this matter. The Department is also aware that the underlying jurisdictional determination at issue, as well as a majority of the exports, occurred prior to the Respondent's April 2001 acquisition of Litton Industries, Inc. However, given the significant

national security interests involved, as well as the negligence and longstanding nature of the violations, the Department has decided to charge the Respondent with 110 violations at this time. We note that had the Department not taken into consideration, the Respondent's Voluntary Disclosure as a significant mitigating factor, the Department could have charged the Respondent with additional violations, and could have pursued much more significant penalties.

BACKGROUND

General Overview

Respondent originally designed the LTN-72 and LTN-92 INS systems for commercial use. However, from 1994 to 2003, the Respondent modified numerous LTN-72 and LTN-92 INS units for military use making them controlled on the United States Munitions List (USML).[1] These military modifications of the LTN-72 and LTN-92 included incorporation of the following six military software modules: 1) In Motion Align, 2) Stored Heading, 3) Steering, 4) Computer Aided Release Point, 5) Tanker Orbit, and 6) Maximum Bank Angle.

Between 1994 and 2003, the Respondent exported numerous modified LTN-72 and LTN-92 INS systems to various countries without authorization. In the same period, the Respondent conducted repair and provided training and assisted in the installation of these INS systems to various countries without authorization. Respondent also exported without authorization portions of the source code of the modified LTN-92 used on Air Force One to Russia.

Respondent stated in its Voluntary Disclosure to the Department that it believed that these INS systems were controlled by Commerce, and had applied for and obtained Commerce licenses to export the systems. The Commerce license applications identified the military aircraft into which the INS would be incorporated. However, in its license applications to Commerce, the Respondent failed to disclose that the INS systems had been modified for military use, a fact which, if disclosed, would have revealed to Commerce that the items were under the export jurisdiction of the Department of State.

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[1] In 1992 and 1993, the Departments of State and Commerce published Federal Register notices which noted that aircraft inertial navigation systems, and the related technical data, that are specifically designed, modified or configured for military use are controlled by the Department of State.

The Respondent submitted an initial voluntary disclosure dated April 13, 2004, and a full disclosure dated February 15, 2005, concerning ITAR violations involving the modified LTN-72 and LTN-92 INS.

Our review of the Respondent's voluntary disclosure has revealed that the Respondent failed to address compliance problems involving incorrect jurisdictional determination for an extended period of time. Between 1994 and 2003, the Respondent neglected to properly classify the modified LTN-72 and LTN-92 INS as USML, and then exported these inertial navigation systems without export licenses from the Department.

We note that the Respondent's ITAR violations have resulted in harm to U.S. national security. Respondent exported to Russia portions of a source code of LTN-92 that interfaces with other cockpit devices utilized on Air Force One and certain source code unique to Air Force One. Respondent's unauthorized export of this source code provided certain capabilities, limitations, and vulnerabilities of Air Force One to Russia. The United States Government has never authorized the export of this critical source code, even to our closest allies.

Respondent also exported without authorization the modified LTN-92 INS to proscribed countries, thus providing these countries with capabilities similar to the aircraft operated by NATO nations. By receiving the militarized LTN-92 INS, these proscribed countries received capabilities not held previously.

Furthermore, the Respondent was involved in numerous additional ITAR violations, including the failure to notify the Department of exports to proscribed countries; the unauthorized export of the modified LTN-72 and LTN-92 INS to various foreign end-users; the unauthorized provision of defense services involving the modified LTN-72 and LTN-92; the unauthorized export of technical data in the form of software to and procurement of the modified LTN-92s in Canada; the unauthorized reexport of the LTNs to various countries from Canada and the United Kingdom; the unauthorized export of technical data in the form of software involving the modified LTN-72 and LTN-92 to the U.K.; and the failure to obtain a non-transfer and use certificate for the export of the LTNs.

Violation involving Source Code used for Air Force One

Between September 1998 and November 1998, Respondent provided portions of the source code related to the LTN-92 INS modified for use on Air Force One to a company in Russia without authorization from the Department.

This unauthorized export resulted in Russia obtaining knowledge in developing critical INS software that is specifically unique to Air Force One.

Unauthorized Exports to Proscribed Countries

Between January 1994 and December 2003, Respondent exported a total of 73 modified LTN-72 and LTN-92 INS in 27 shipments to Angola, the PRC, Indonesia, and Ukraine, all of which were proscribed countries under Section 126.1 of the ITAR at the time of the exports.

Failure to Notify of Exports to Proscribed Countries

Between January 1994 and December 2003, Respondent failed to notify the Department of the proposed sale of the 73 modified LTN-72 and LTN-92 INS to Angola, Indonesia, the PRC, and Ukraine. Pursuant to Section 126.1 (e) of the ITAR, exports to such countries must be reported to the Department. Respondent exported the 73 modified LTN-72 and LTN-92 INS in 27 different shipments.

Other Violations

Between January 1994 and December 2003, Respondent exported without authorization, a total of 232 modified LTN-72 and LTN-92 INS systems to Austria, Brazil, Brunei, Greece, Israel, Malaysia, Singapore, South Korea, Thailand, the United Kingdom, and Yemen.

Between January 1994 and December 2003, Respondent provided without authorization defense services involving repair, training and assistance in installation of the modified LTN-72 and LTN-92 INS systems to Brazil, Indonesia, Israel, Malaysia, Singapore, and the United Kingdom.

Between 1994 and 1998, Respondent exported without authorization technical data in the form of software of the modified LTN-92 INS to Litton Systems Canada Limited (Litton Canada), so that Litton Canada could configure the modified LTN-92 INS by installing the software.

Between 1994 and 1998, Litton Canada, without authorization, reexported a total of five units of the modified LTN-92 INS systems to end-users in Romania, South Korea, Indonesia, and the United Kingdom.

Between 1981 and 2000, Respondent exported 23 copies of the modified LTN-72 and LTN-92 INS software to the Respondent's London Service Center in the United Kingdom (U.K.) without authorization.

Respondent failed to obtain a non-transfer and use certificate (Form DSP-83) for the export of the modified LTN-72 and LTN-92 INS, which are SME. Respondent failed to obtain DSP-83s for all of the 363 unauthorized exports of the LTN-72 and LTN-92 INS mentioned in the previous sections.

JURISDICTION

Respondent is a corporation organized under the laws of the State of Delaware.

Respondent is a U.S. person within the meaning of the Act and § 120.15 of the ITAR, and is subject to the jurisdiction of the United States.

During the period of the unauthorized exports described above, the Respondent was registered as a manufacturer/exporter with the Department of State, Directorate of Defense Trade Controls ("DDTC") in accordance with Section 38 of the Act and § 122.1 of the ITAR.

The modified LTN-72 and LTN-92 Inertial Navigation Systems (INS), associated with the violation(s) outlined above, are controlled under Category VIII (e) of the U.S. Munitions List ("USML"), § 121.1 of the ITAR. The modified LTN-72 and LTN-92 Inertial Navigation Systems are further defined as Significant Military Equipment ("SME"), requiring a DSP-83 (Non-Transfer and Use Certificate) for exports, retransfers, and reexports pursuant to § 123.10 of the ITAR.

Technical data, as defined in § 120.10 of the ITAR, for the LTN-72 and LTN-92 INS is controlled under Category VIII (i) of the U.S. Munitions List ("USML"), § 121.1 of the ITAR.

Defense service, as defined in § 120.9 of the ITAR, for the LTN-72 and LTN-92 INS is controlled under Category VIII (i) of the U.S. Munitions List ("USML"), § 121.1 of the ITAR.

REQUIREMENTS

Part 121 of the ITAR identifies the items that are defense articles, technical data, and defense services pursuant to Section 38 of the Act.

Section 127.1(a)(1) of the ITAR provides that it is unlawful to export or attempt to export from the United States, or to reexport or retransfer or attempt to reexport or retransfer from one foreign destination to another foreign destination by a U.S. person of any defense article or technical data or by anyone of any U.S. origin defense article or technical data or to furnish any defense service for which a license or written approval is required without first obtaining the required license or written approval.

Section 123.10(a) of the ITAR provides that a nontransfer and use certificate (Form DSP-83) is required for the export of significant military equipment (SME) and classified technical data.

Section 126.1(a) of the ITAR provides that it is the policy of the United States to deny, among other things, licenses and other approvals, destined for or originating in certain countries, including the PRC.

Section 126.1(a) also applied to Angola, Indonesia, and Ukraine, because these countries were embargoed by the Department at the time of the violations. The Department identified Angola as a proscribed destination on August 17, 1994, and lifted the proscription on November 21, 2003. The Department identified Indonesia as a proscribed destination on October 14, 1999, and lifted the proscription on March 22, 2001. Ukraine was a proscribed destination until August 12, 1996.

Section 126.1(e) of the ITAR provides that no sale or transfer, and no proposal to sell or transfer, any defense articles or technical data may be made to any of the countries listed under Section 126.1 (a) of the ITAR without authorization from the Department.

Section 126.1(e) of the ITAR also provides that anyone that knows or has reason to know of a proposed or actual sale, or transfer, of a defense article or technical data to a proscribed country must immediately inform DDTC.

CHARGES

Charge [1] – Violation involving Source Code Used for Air Force One

Respondent violated Section 38(b)(2) of the Act and Section 127.1(a)(1) of the ITAR, when Respondent exported without authorization USML Category VIII SME technical data in the form software of to an end-user in Russia.

Charges [2-28] - Unauthorized Exports to Proscribed Countries

Respondent violated Section 126.1(e) of the ITAR, when [27 times] Respondent exported without authorization USML Category VIII SME defense articles, including technical data in the form of embedded software to Angola, Indonesia, the PRC, and Ukraine.

Charges [29-55] - Failure to Notify of Exports to Proscribed Countries

Respondent violated Section 126.1(e) of the ITAR, when [27 times] Respondent failed to notify the Department that it was exporting USML Category VIII defense articles, including technical data in the form of embedded software to Angola, Indonesia, the PRC, and Ukraine.

Charges [56-110] – Other Violations

Respondent violated Section 38(b)(2) of the Act and Section 127.1(a)(1) of the ITAR, when [46 times] Respondent exported without authorization USML Category VIII SME defense articles, including technical data in the form of embedded software to various end-users in Austria, Brazil, Brunei, Greece, Israel, Malaysia, Singapore, South Korea, Thailand, the United Kingdom, and Yemen.

Respondent violated Section 38(b)(2) of the Act and Section 127.1(a)(1) of the ITAR, when [one time] Respondent provided without authorization USML Category VIII defense services to Brazil, Indonesia, Israel, Malaysia, Singapore, and the United Kingdom.

Respondent violated Section 38(b)(2) of the Act and Section 127.1(a)(1) of the ITAR, when [one time] Respondent exported without authorization USML Category VIII SME technical data in the form of software to Canada.

Respondent violated Section 127.1(a)(1) of the ITAR, when [one time] Litton Canada reexported without authorization USML Category VIII SME defense articles, including technical data in the form of embedded software to end-users in Romania, South Korea, Indonesia, and the U.K.

Respondent violated Section 38(b)(2) of the Act and Section 127.1(a)(1) of the ITAR, when [five times] Respondent exported without authorization USML Category VIII SME technical data in the form of software to the United Kingdom.

Respondent violated Section 123.10(a) of the ITAR, when [one time] it failed to obtain a non-transfer and use certificate (Form DSP-83) for the export and reexport of Category VIII SME defense articles and technical data in the form of software.

ADMINISTRATIVE PROCEEDINGS

Pursuant to Part 128 of the ITAR, administrative proceedings are instituted by means of a charging letter against Respondent for the purpose of obtaining an Order imposing civil administrative sanctions. The Order issued may include an appropriate period of debarment, which shall generally be for a period of three years, but in any event will continue until an application for reinstatement is submitted and approved. Civil penalties, not to exceed $500,000 per violation, may be imposed as well in accordance with Section 38(e) of the Act and 22 C.F.R. §127.10.

A Respondent has certain rights in such proceedings as described in Part 128 of the ITAR. Currently, this is a proposed-charging letter. However, in the event that you are served with a charging letter, you are advised of the following matters: You are required to answer the charging letter within 30 days after service. If you fail to answer the charging letter, your failure to answer will be taken as an admission of the truth of the charges. You are entitled to an oral hearing, if a written demand for one is filed with the answer, or within seven (7) days after service of the answer. You may, if so desired, be represented by counsel of your choosing.

Additionally, in the event that you are served with a charging letter, your answer, written demand for oral hearing (if any) and supporting evidence required by 22 C.F.R. §128.5(b), shall be in duplicate and mailed to the administrative law judge designated by the Department to hear this case. The U.S. Coast Guard provides administrative law judge services in connection with these matters, so the

answer should be mailed to the administrative law judge at the following address: USCG, Office of Administrative Law Judges G-CJ, 2100 Second Street, SW Room 6302, Washington, D.C. 20593. A copy shall be simultaneously mailed to the Director of the Office of Defense Trade Controls Compliance, Department of State, 2401 e. Street, NW, Washington, D.C. 20037. If you do not demand an oral hearing, you must transmit within seven (7) days after the service of your answer, the original or photocopies of all correspondence, papers, records, affidavits, and other documentary or written evidence having any bearing upon or connection with the matters in issue. Please be advised also that charging letters may be amended from time to time, upon reasonable notice. Furthermore, pursuant to 22 C.F.R. §128.11, cases may be settled through consent agreements, including after service of a proposed-charging letter.

Be advised that the U.S. Government is free to pursue civil, administrative, and/or criminal enforcement for violations of the Arms Export Control Act and the International Traffic in Arms Regulations. The Department of State's decision to pursue one type of enforcement action does not preclude it, or any other department or agency, from pursing another type of enforcement action.

Sincerely,

David C. Trimble
Director
Office of Defense Trade Controls Compliance